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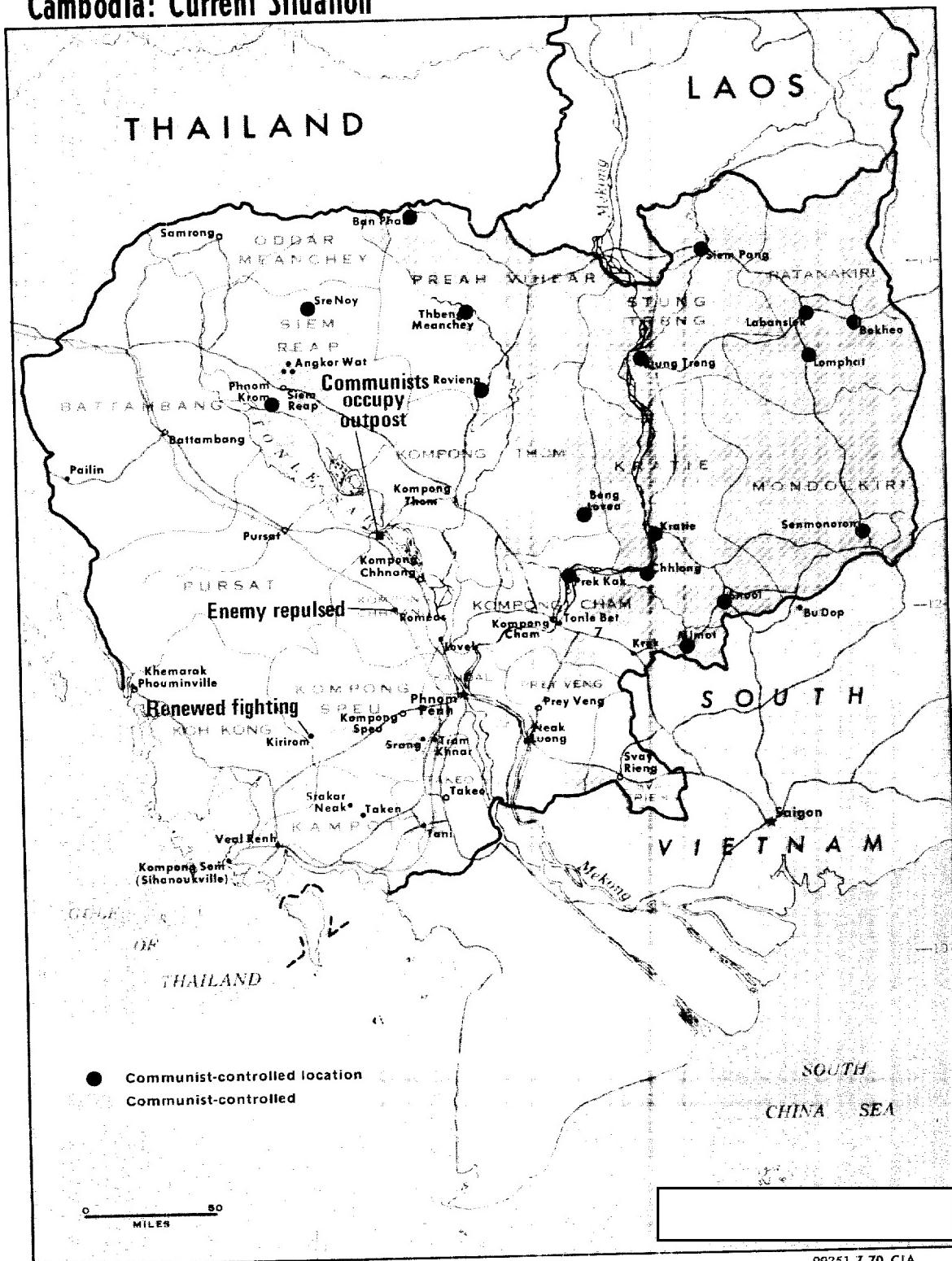
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Cambodia: Current Situation



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Cambodia: Fighting has flared anew at Kirirom.

An estimated three Communist battalions drove a wedge between four Cambodian Army battalions in the center of the resort town yesterday. Cambodian commanders on the scene called for air strikes, claiming that enemy strength was increasing. Government forces at Kirirom reportedly were also running out of food.

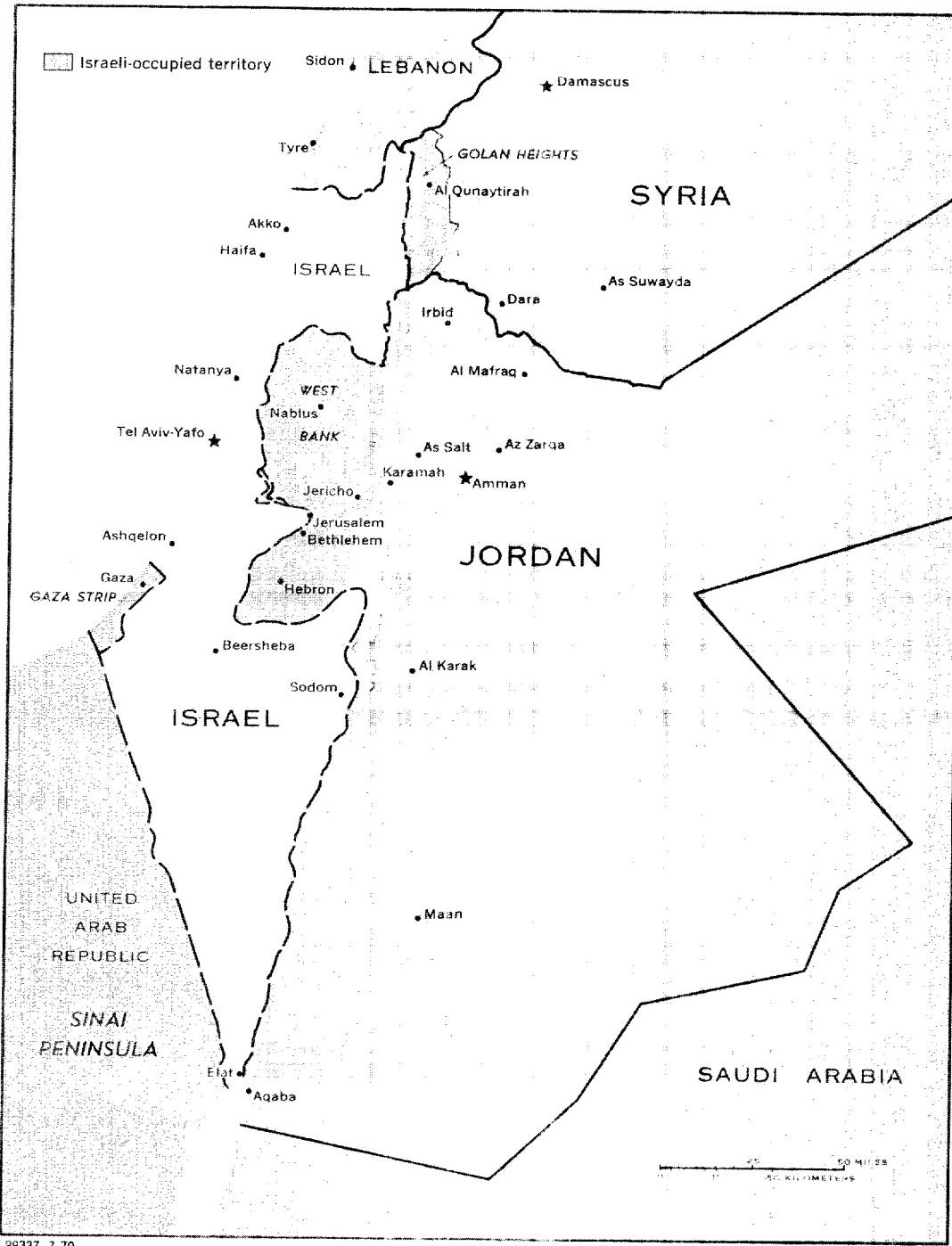
Communist forces also continued their increased activity in Kompong Chhnang Province. The provincial capital was shelled during the night of 20 July. Northwest of Kompong Chhnang city, government reinforcements are moving to retake an outpost on the Tonle Sap that was overrun by the Communists on 19 July. Elsewhere in the province, the enemy attacked the government's main infantry training center at Romeas, southwest of Kompong Chhnang city, but government troops supported by air strikes repulsed the Communists. The center's defense perimeter was not breached, and government forces apparently have had few casualties.

Southwest of Phnom Penh, government reinforcements from Kompong Speu city reportedly were able to recapture at least part of the village of Srang, but few details were available.

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UK - South Africa: London's decision not to announce a resumption of arms sales to South Africa at this time is probably the result both of foreign pressure and concern over the continuing domestic crisis.

When the Heath government made the decision to resume the sales earlier this month, it apparently did not anticipate the extent and strength of opposition. Uganda, Tanzania, Ghana, and Zambia are among the nations which have protested strongly and Tanzanian sources have leaked Dar es Salaam's intention to leave the Commonwealth immediately if the UK persists.

At the UN, a number of African nations are apparently prepared to seek a tougher Security Council resolution on arms sales to South Africa, although they may stop short of demanding a mandatory embargo. Supporters of this initiative have sought to rebut the distinction drawn by the British between arms for internal use and arms for external defense.

Under these circumstances, London decided yesterday to replace its prepared statement announcing a resumption of sales with an announcement that it would complete consultations with Commonwealth countries and South Africa before making a final decision. The debate on the issue which begins today in the House of Commons is expected to be one of the hottest of the year, but will be cut short by the ending of the summer session.

The government will now almost certainly wait until the House of Commons reconvenes in mid-October to make a final announcement. This altered timetable probably is prompted in part by concern over the continuing dock strike which last week led to the declaration of a state of emergency. By waiting, the Heath government avoids the necessity of dealing simultaneously with a serious social crisis and what would certainly have become a major diplomatic storm.

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Pakistan: The government has increased incentives for exporters of primary commodities, notably raw jute and cotton, to counter declining exports.

These exporters will now be eligible for bonus vouchers--a system of preferential payments under which an exporter receives a higher exchange rate than the official one. The bonus-voucher system was introduced in 1959 to encourage exports of manufactured goods and, until now, had been restricted to this category. Under the new regulations the effective exchange rate for primary commodities will be 10 to 20 percent higher than the official rate, while those for manufactured goods will continue at higher levels, ranging from 25 to 75 percent.

The policy revision is largely in response to Pakistan's first actual decline in exports in over a decade. Practically all of the decline was in raw cotton exports; strong domestic demand made it more profitable to sell the cotton in the home market. It also redresses one of East Pakistan's major grievances: its most important export, raw jute, had not been eligible for bonus vouchers. Raw jute accounts for over 50 percent of East Pakistan's exports.

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Iran: Government efforts to influence the selection of a new leader for the Shi'a Islamic sect may be widening the already large gap between the Shah and the clergy.

The previous leader of the Shi'ite sect--to which most Iranians as well as many Iraqis, Pakistanis, and Lebanese belong--died last month in Iraq. The government began almost immediately to ensure that his successor be both a resident of Iran and not opposed to the Shah's government. The clergy still have an impact on the day-to-day lives of their followers, and the Shah is anxious to have a non-hostile man.

Clerical opposition to the Shah, although less overt than in the early 1960s, is still high. It is based on the secular nature of the Shah's government, the regime's ties with Israel, and on government programs that have reduced the political influence of the clergy. The government has attempted to both suppress and assuage this hostility, but can probably count on no more than ten percent of the clergy for active support.

It is not surprising, therefore, that the government's efforts to influence the choice of a new leader have been counterproductive. The Shah's obvious preference for two Iranian Ayatollahs--high-ranking clerics--reportedly has tagged them as pro-government and thus unfaithful to their religious responsibilities. The death in prison of a popular Ayatollah, who had been arrested after criticizing the government and advocating an antigovernment candidate for the leadership post, infuriated many clerics and further reduced support for the Shah's candidates.

The issue is further complicated by Iraqi support for an anti-Shah Ayatollah who is in exile in Iraq. Iraq reportedly has considerable influence among important religious elements in Iran. [redacted]

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C Bolivia: The minister of interior is urging that the recent guerrilla attack on a US company be answered with firm government action.

Colonel Ayoroa, the Interior Minister, favors a public announcement that the government will not release any political prisoners as ransom for the two German hostages held by the National Liberation Army (ELN), but will in fact execute prisoners if the hostages are killed. Ayoroa does not expect his recommendations to be accepted by the cabinet, and a government decision to yield to ELN demands could stir new difficulties between Ovando and those in the military who favor a rigorous policy toward leftists and subversives.

The military fears that this guerrilla action may be the beginning of a new and possibly widespread outbreak. Army Commander Miranda is concerned that the army is not prepared to handle simultaneous guerrilla actions in different parts of the country.

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Argentina: The new government has begun to develop its domestic policies.

[redacted] the long-range plans are aimed toward an eventual return to constitutional government, but the military regime intends to remain in power for some years. During this period, it will attempt to broaden its political base by including individuals of diverse political backgrounds in the administration. Even so, the armed forces are faced with the problem of relinquishing power while keeping the country on a course they approve.

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The government does not intend to recognize the old political leadership or to allow it to return to power. Key members of the administration and the military commanders in chief are said to believe that the politicians of the post-Peron era misused the opportunities available to them to improve the political and economic situation in the nation. They hope that if the period before elections is prolonged, many of the old leaders will be eliminated from the political scene through attrition.

During its tenure, the Levingston government probably will concentrate on domestic economic development to the extent possible in view of the Government's limited financial resources. It is also expected to stress reforms and to maintain an anti-Communist policy. [redacted]

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Egypt: A formal Egyptian reply to the US peace initiatives may be forthcoming today. Nasir's speech scheduled for tomorrow on the anniversary of the Egyptian revolution probably will also reflect much of the Arab attitude toward the proposals. He probably now hopes he can enhance his flagging prestige with references to the significance of his recent Moscow visit.

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Communist China: Peking is upgrading its railroad system by purchasing locomotives from the free world. The Chinese recently ordered 30 diesels worth \$22 million from West Germany. This follows a \$30-million contract concluded in May for 40 French electric locomotives. Peking also has indicated it would place orders for an additional 20 to 30 Western locomotives next year. These are China's first such major purchases in almost ten years and reflect the high priority Peking is giving to the improvement of its transport system.

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Colombia: Disturbances in Bogota on Monday were limited to a stormy session during the opening of the new congress. Several legislators of General Rojas Pinilla's National Popular Alliance were arrested. Rojas' daughter, who is a Senator, was forcibly ejected from the Senate Chamber. Security precautions continue, and the state of siege probably will remain in effect through the presidential inauguration on 7 August, when disorders are expected.

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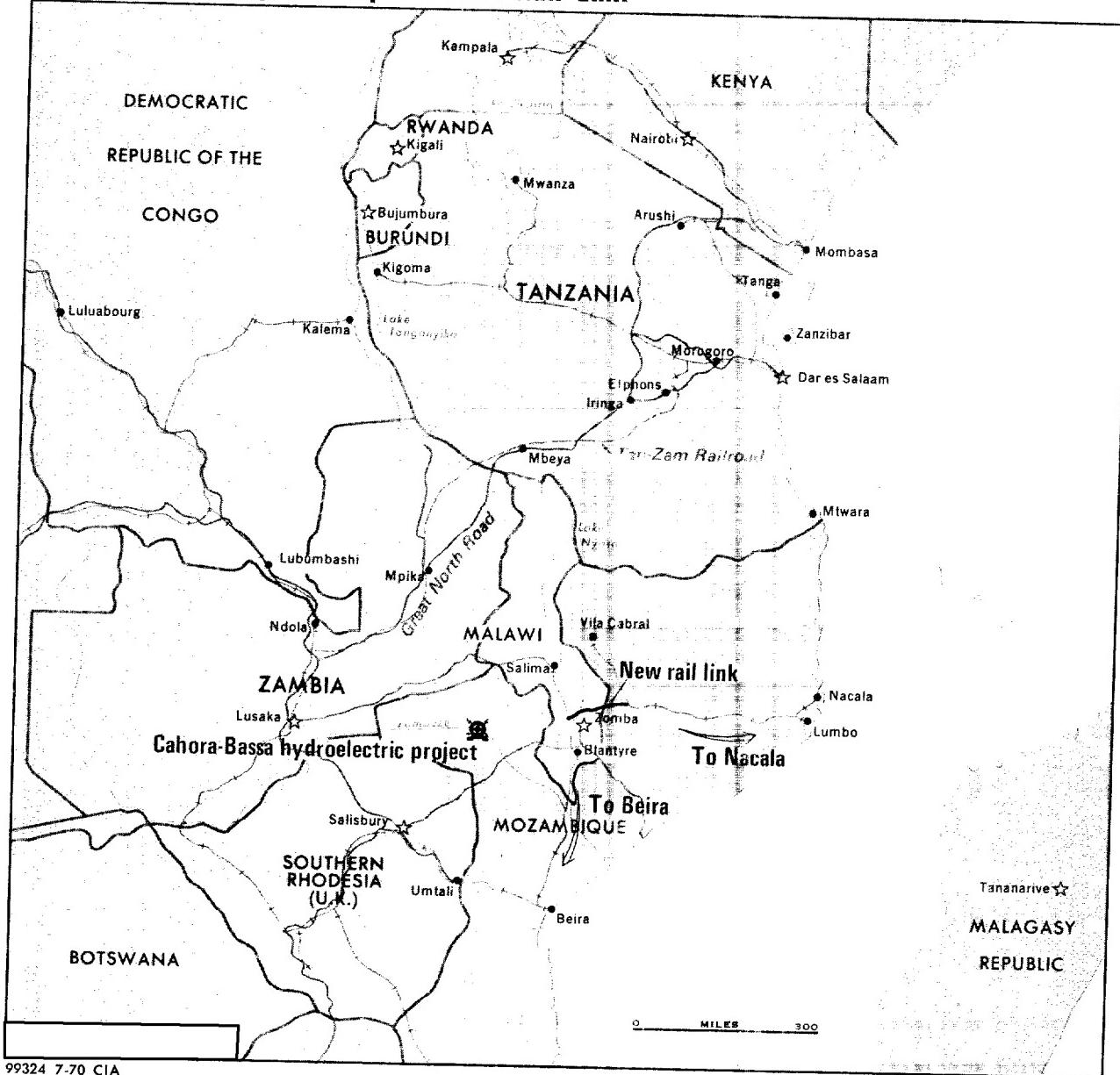
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Malawi-Mozambique Complete New Rail Link



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Ecuador: Opposition to a new labor decree led to numerous arrests and a strike by government employees yesterday in Guayaquil, the commercial center of the country. The decree prohibits the practice of employer payment of the employees' income and social security taxes, a benefit written into many collective bargaining contracts. Organized labor's "wait and see" attitude toward President Velasco's new powers is thus becoming one of active opposition because of what labor sees as the delay and ineptness of the administration in clarifying and carrying out its reform decrees.

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Malawi: The final link connecting Malawi's rail network with the port of Nacala in Mozambique was recently opened and is expected to be fully operational by August. The 62-mile connection to the Mozambique border, built at a cost of \$12 million, was financed by a long-term loan from the Industrial Development Corporation of South Africa. Landlocked Malawi now has two rail routes to the sea, including the one heading south toward Beira, Mozambique. The new link eventually may be extended to Cahora Bassa, Mozambique, where it would facilitate the movement of materials to a dam that the Portuguese are building there.

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